

PUBLIC EMPLOYEES RETIREMENT BOARD MEETING

April 18, 2005

8:30 A.M.

A regular meeting of the Public Employees Retirement Board convened at 8:30 a.m., Monday, April 18, 2005, in the TierOne Community Meeting Room at 1221 N Street, Lincoln, Nebraska.

The Board members were notified of this meeting by letter dated April 8, 2005. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Sunday, April 10, 2005. Mr. Peters chaired the meeting and Ms. Linder recorded the minutes.

MEMBERS PRESENT:

CHARLES PETERS, CHAIR
JULIA MOELLER, VICE-CHAIR
DENIS BLANK
WILLIAM HASTINGS
ROGER REA
DALE KAHLA
MARK SHEPARD
GLENN ELWELL
CAROL KONTOR, EX-OFFICIO

NONMEMBERS PRESENT:

ANNA SULLIVAN
Director
DAVE SLISHINSKY
Mellon Consultants
DALE RATHE
Retired School Plan Member
MARY JOCHIM
Sterling Financial Advisors
JOE SCHAEFER
Legal Counsel
TERESA ZULAUF
Internal Auditor
RON NIEWOHNER
Project Manager
KRISTA DAVIS
State Auditor's Office
JASON HAYES
Legislative Retirement Counsel
NICK PADEN
Nebraska State Troopers Association
JAN FOX
Training Supervisor
JANE HANSEN
Retirement Plan Supervisor

RANDY GERKE

Accounting and Finance Manager

SHEILA LINDER

Administrative Assistant

Agenda Items 1 and 2 - Meeting Called to Order: Chairperson Peters called the April 18, 2005, Board Meeting to order at 8:30 a.m. Present at roll call: C. Peters, J. Moeller, D. Blank, W. Hastings, R. Rea, D. Kahla, M. Shepard, G. Elwell, and C. Kontor. Absent: None.

Agenda Item 3 - Approval of Minutes: Mr. Rea moved that the minutes of the March 21, 2005, Board Meeting be approved. Motion was seconded by Mr. Elwell. Members voted as follows: For: J. Moeller, D. Blank, W. Hastings, R. Rea, D. Kahla, M. Shepard, G. Elwell, and C. Peters. Against: None. Motion carried.

Agenda Item 4 - Approval of Budget Status Report & March Retirement Report: Ms. Moeller moved to approve the budget status report and the March Retirement Report. Motion was seconded by Mr. Kahla. Members voted as follows: For: D. Blank, W. Hastings, R. Rea, D. Kahla, M. Shepard, G. Elwell, C. Peters, and J. Moeller. Against: None. Motion carried.

Agenda Item 5 - Public Comments or Correspondence from Citizens: There were no public comments or correspondence from citizens with business not scheduled on the agenda.

Agenda Item 6 - Annual Report – Education Services: Ms. Fox presented her annual report. She stated her department keeps members informed through publishing and distributing educational materials, newsletters, and seminar material. The staff conducts meetings and seminars for State and County members in the fall and for School members in the spring, with Judge and Patrol plan members welcome to attend those sessions. Employer Reporting workshops for School employers are held in June and they are developing a workshop for state employers.

Ms. Fox distributed the Education Services Annual Report. She stated the report covers direct expenses, but does not cover indirect expenses. Ed Services held 27 extra meetings with approximately 875 members and employers attending. They will continue to do the same thing this year. “Retirement 101” sessions were started this year. They have talked to five agencies and reached 301 state members. These are one-hour sessions about the State plan with a focus on the Deferred Compensation Plan. They will be promoting the sessions more in the summer and fall after the School seminars are completed for the year.

Ms. Fox recognized Sterling Financial and Mary Jochim. Sterling Financial is available for members to call regarding investments and investment education. Ms. Jochim provides information when special information is needed.

Ms. Fox also distributed a School seminar registration form to the Board members and invited them to attend a seminar and see first hand what is provided to the plan members. Evaluation forms are provided at all the seminars. John Winkelman and Nadine Ault, the training specialists, are doing a fabulous job and continue to receive very high marks in these evaluations.

Ms. Moeller stated she has heard excellent comments regarding the seminars and Mr. Blank stated the “Retirement 101” sessions were a great success.

Mr. Peters again noted what the staff is doing is of the utmost importance and the Board is greatly pleased with what they have been doing. He also stated it would be interesting to know how many people are being reached through the sessions as compared to prior years and suggested this comparison be provided each year.

Sgt. Elwell stated he met with Patrol staff regarding the educational process. They are working on the possibility of having Education Services provide a presentation for the patrol recruits.

Agenda Item 7 - Information Technology Update: Mr. Niewohner reported the IT Team is working on the maintenance stage of PIONEER. Covansys has agreed to do staff training on Forte and SQL. They started Forte training last week. The IT Team will eventually take over PIONEER in-house. The training has gone fairly well and the staff is catching on quickly.

Mr. Niewohner completed the evaluation of Integra, a database monitoring tool. It is expensive so Mr. Niewohner may try to develop it in-house and will start work on it this week.

Agenda Item 8 - Hartford Annual Report: Mr. Robinson reviewed the Hartford Annual Report. A copy of the report can be reviewed at the NPERS office.

Ms. Sullivan distributed copies of a letter from Hartford dated February 18, 2005, regarding the annuity contract and enhancements that were made in January of 2003. At that time, their legal department did not believe there was a need for affirmation of the contract owner. Because there was not an opportunity to turn it down at that time, this letter was sent to provide the opportunity. Mr. Robinson stated we can do nothing or opt to go back to the old contract and lose the enhancements. He stated the enhancements included changing from a registered product to an unregistered product so they can now do month to month changes. Ms. Sullivan stated she wanted the Board to be aware of this and have Mr. Robinson explain it to the Board. If we do nothing, the contract stays as is, with the enhancements. Ms. Kontor stated we do not want to send mixed signals to plan participants. Mr. Robinson stated the enhancements are at the plan sponsor level, not a participant level for our agency. There is nothing negative about the new contract. The participants did not see a change and will not be notified since it does not affect them.

The Board took a break at 9:42 a.m. and reconvened at 9:52 a.m.

Further discussion will be held on Agenda Item 8 following the Cash Balance Report.

Agenda Item 9(a) - Annual Actuarial Reports: Mr. Slishinsky was present to explain the discussion that was held regarding funding of the School, Judges, and Patrol plans and some alternatives that have been discussed since the last Board Meeting. The discussion was regarding the projections for the five-year period. Mr. Slishinsky reviewed the Five-year Projections. Due to the asset smoothing methods that are being used, there are still some losses to be realized in future years. As a result, there are changes in additional contribution rates that are expected over the next five-year period. As the losses of 2001 and 2002 become recognized, the additional contribution requirement is expected to go up. Mellon ran projections showing the level of volatility expected over the next five years. Once the losses are fully recognized, if there are additional gains that have not been fully recognized in the asset smoothing method the market value of assets will exceed the actuarial value. One option could be to immediately recognize those gains, setting the actuarial value equal to the

market value. Another suggestion has been to extend the current 25-year amortization schedule for unfunded liabilities to a 30-year schedule. This change would need to be made in statute.

Mr. Slishinsky stated we are going to carefully watch the results over the next couple of years. The earliest we could look at re-initialization would be 2006.

Mr. Peters stated the PERB has not taken a position on methodology. Fundamentally it is not a function of this board to tell the Legislature what to do. The Investment Council makes investments based on the long term. Mr. Slishinsky stated what we are seeing is a reaction to market volatility. Mr. Rea stated we need to remind the State of its obligation to fund the plan. Ms. Sullivan stated plan members need to be commended for stepping forward to pick up the contributions for the next two years.

Mr. Shepard left the meeting at 10:35 a.m.

Agenda Item 9(b) - Cash Balance Annual Actuarial Reports: Mr. Slishinsky reviewed the Cash Balance Benefit Funds Report. A copy of the report can be reviewed at the NPERS office.

Following a review of the report, the PERB discussed issuing a dividend to the Cash Balance Plan members. They also discussed implementing a formula for granting dividends that would provide that those who retire would be eligible for the dividend.

Mr. Blank moved to issue a dividend at the suggested rate by the actuary of 2.8% to active members as of April 18, 2005, based on each member's December 31, 2004, account balance. Ms. Moeller seconded the motion. Members voted as follows: For: W. Hastings, R. Rea, D. Kahla, G. Elwell, C. Peters, J. Moeller, and D. Blank. Against: None. Motion carried.

Agenda Item 8 - Hartford Annuity Contract - Resumed: Mr. Peters asked Ms. Sullivan if she had a recommendation regarding the Hartford Annuity Contract. She stated from the information contained in the February 18th letter and reliance on Mr. Robinson, she would not opt to go back to the contract prior to 2003.

Mr. Rea moved to affirm the continuation of the existing annuity contract with Hartford as opposed to going back to old contract. Ms. Moeller seconded the motion. Members voted as follows: For: R. Rea, D. Kahla, G. Elwell, C. Peters, J. Moeller, D. Blank, and W. Hastings. Against: None. Motion carried.

Agenda Item 10 - Legislative Update: Mr. Schaefer reported LB 503, a committee priority bill, was on final reading and was returned to select file for an amendment. It is expected LB 503 will be placed on final reading this week, and will likely be advanced.

The second committee priority bill, LB 364, had an amendment added. It includes parts of the Omaha bill and has provisions from other bills, LB 365 (active or retired members can serve on the PERB), late payment provisions of LB 367, and LB 691 (Cash Balance and DC benefits regarding expense funds).

LB 366 (the state employee member 4.8% flat contribution rate change) is on general file but it is unlikely any action will be taken.

We are still waiting to see what the Judges' solution will be in LB 369, but it does not appear there will be a member contribution rate increase.

Agenda Item 11 - Investment Council Update: Ms. Kontor distributed the Investment Council's Annual Report. She briefly reviewed the report.

Ms. Kontor reported the Investment Council added asset class of Global Equity at the last Council Meeting.

Ms. Moeller moved to accept the Annual Report from the Nebraska Investment Council. Mr. Blank seconded the motion. Members voted as follows: For: D. Kahla, G. Elwell, C. Peters, J. Moeller, D. Blank, W. Hastings, and R. Rea. Against: None. Motion carried.

Agenda Item 12 - Director's Report: Ms. Sullivan reported the changes needed to have Ameritas handle the annual 10 basis points accrual in the State, County, and Deferred Compensation Plan were put in place, with State Street stopping the accrual and as of April 1st Ameritas started the annual accrual for the County and Deferred Compensation plans, but not for the State plan, due to the forfeitures remaining. This change will show up on the 2nd quarter statement that will be distributed in July.

Also this month the Annual Report was presented to the Retirement Committee. The committee members were invited to visit our offices and see the PIONEER system.

Ms. Sullivan stated there were three documents in the Board members' packets this morning regarding forfeitures and accounting of plan assets. A meeting was held with the Fiscal Office, the Budget Office, and Jason Hayes dealing with the annual 10 basis points and the forfeitures. Ms. Sullivan noted the agency is going to book summary assets on the state accounting system. Mr. Schaefer has worked with Mr. Hayes on a legislative change.

Our budget request is pending and we have not received the final report back from the Fiscal Office.

A Request for Bids was submitted for the Deferred Comp annuities. Ms. Sullivan plans to have the top two or three bids for the PERB at the May meeting.

The State and County Audit started the first part of April.

Ms. Sullivan made a presentation to the school administrators GRIT conference this month. They did discuss legislation, the contribution rate increase, and compensation. Work is still being done on the compensation questions.

Ms. Sullivan stated a meeting was held with Covansys regarding the maintenance agreement with them. We will continue to renew the contract until our staff is able to handle the work themselves.

Ms. Moeller moved to approve and accept the Director's report. Mr. Kahla seconded the motion. Members voted as follows: For: G. Elwell, C. Peters, J. Moeller, D. Blank, W. Hastings, R. Rea, and D. Kahla. Against: None. Motion carried.

Agenda Item 13 - Finalize Board Retreat Location: Ms. Sullivan reported there is a reservation on hold at the Lied Conference Center in Nebraska City for the August Board Retreat pending

approval of the Board. She also mentioned that she had inquired of the Board if they were interested in holding the retreat in North Platte. Judge Hastings moved to hold the PERB Annual Retreat in Nebraska City. Mr. Kahla seconded motion. Members voted as follows: For: C. Peters, J. Moeller, D. Blank, W. Hastings, R. Rea, D. Kahla, and G. Elwell. Against: None. Motion carried.

Agenda Items 14 and 15 - Executive Session: At 12:49 p.m., Ms. Moeller moved that the Board exit Regular Session and convene in Executive Session for the purpose of discussing disability applications from plan members and other legal matters. Motion was seconded by Mr. Rea. Members voted as follows: For: J. Moeller, D. Blank, W. Hastings, R. Rea, D. Kahla, G. Elwell, and C. Peters. Against: None. Motion carried.

At 1:25 p.m., Ms. Moeller moved that the Board exit Executive Session and reconvene in Regular Session. Motion was seconded by Mr. Blank. Members voted as follows: For: D. Blank, W. Hastings, R. Rea, D. Kahla, G. Elwell, C. Peters, and J. Moeller. Against: None. Motion carried.

Mr. Kahla moved for approval of the disability applications of M. Kisling and M. Miller. Mr. Rea seconded the motion. Members voted as follows: For: W. Hastings, R. Rea, D. Kahla, G. Elwell, C. Peters, J. Moeller, and D. Blank. Against: None. Motion carried.

Agenda Item 16 - Future Meetings/Agendas: The next meeting will be held on Monday, May 16, 2005, in the TierOne Community Meeting Room at 1221 N Street. The retreat committee will meet briefly following the meeting today. Next month items on the Agenda will include a budget update, legislative update, and approval of an annuity contract for the deferred compensation plan. In June Covansys will give their annual report. June is also when the Director's evaluation is done and the committee plans to have a recommendation in May.

Mr. Blank asked for approval to attend the International Foundation training in Brookfield on investment basics in July. Judge Hastings moved for approval of Mr. Blank's request. Ms. Moeller seconded the motion. Members voted as follows: For: R. Rea, D. Kahla, G. Elwell, C. Peters, J. Moeller, D. Blank, and W. Hastings. Against: None. Motion carried.

Agenda Item 17 - Chairperson's Comments: Mr. Peters stated the Board has been blamed for the \$13 million funding deficit that others feel appeared to come from no where. The matter of funding was fully disclosed to both the Governor's office and to the Legislature earlier this year. Ms. Sullivan briefed the Governor and Lieutenant Governor on the status of all three defined benefit plans so that they were aware of additional contributions soon after the actuarial reports were released last fall. A presentation was also made to the Retirement Committee in December 2004 outlining the funding needs for the School, Judges, and Patrol plans.

Mr. Peters stated earlier in the meeting he was trying to make the point that the Board has not told the Legislature what to do. Mr. Blank stated the Board was on track as fiduciaries when a motion was made in January to oppose any bills that require a contribution rate increase to the plan members to make up for an actuarial deficit. Ms. Sullivan stated there needs to be a discussion on this matter. She stated that the pension plans are offered to our employees as a benefit. Mr. Elwell stated the troopers have discussed this and they do not want to lose the plan because they feel they have a very good plan. They feel if they need to, they will raise the contribution rate.

Adjournment: Mr. Blank moved that the meeting adjourn. Motion was seconded by Mr. Rea. Members voted as follows: For: D. Kahla, G. Elwell, C. Peters, J. Moeller, D. Blank, W. Hastings, and R. Rea. Against: None. Motion carried.

The meeting adjourned at 1:40 p.m.

Anna J. Sullivan
Director

Public Employees Retirement Board Meeting
April 18, 2005